

Office of Attorney General Terry Goddard



STATE OF ARIZONA
DEPARTMENT OF LAW
1275 W. WASHINGTON STREET
PHOENIX, ARIZONA 85007-2926
WWW.AZAG.GOV

ANDREA M. ESQUER
PRESS SECRETARY
PHONE: (602) 542-8019
CELL PHONE: (602) 725-2200

FOR IMMEDIATE RELEASE

Goddard Returns Over \$100 Million to Investors

(Phoenix, Ariz. – Oct. 20, 2006) Attorney General Terry Goddard today announced that his office has returned more than \$106 million to victims cheated of their investments through an international fraud discovered last year. This was the largest forfeiture case in Arizona history.

"We are able to return this money because of the heads-up response of our attorneys and investigators. They recognized the sophisticated fraud scheme and moved quickly to seize the funds before they could be hidden," Goddard said. "This is a great day for the victims who trusted Bayou Management to protect their investments."

The case first came to the attention of the Arizona Attorney General's Office in May 2005. It quickly seized the \$100 million from an account at Wachovia Bank after the investigation indicated the funds might be involved in a complex financial fraud.

Shortly after the seizure, Bayou Hedge Fund, a Connecticut-based investment firm, collapsed after investors did not receive payments due them. Federal authorities began investigating the disappearance of \$440 million in Bayou assets.

According to documents filed in New York federal court, Bayou Hedge Fund had been losing money from its inception. Bayou's CEO, Samuel Israel III, attempted to cover up his losses by creating a phony auditing company, which reported impressive profits despite actual losses. Israel turned over \$100 million to another scam artist in a desperate move to recoup his losses.

"Ironically, this move turned out to be the best investment Israel made," Goddard said.

After the Arizona Attorney General's Office seized the \$100 million, it was placed in the Arizona Treasury where it earned over \$6.5 million in interest, which will also go to the victims. In September 2005, Israel and his partner, Daniel Marino, pleaded guilty to fraud in federal court in New York.

Goddard said tracing the funds back to Bayou took several months because the money was moved so many times through different countries. Earlier this month, the FBI submitted its findings to the Attorney General's Office, and the Arizona Corporation Commission's Securities Division confirmed that the monies belonged to the Bayou investors.

Cameron Holmes, chief counsel for the Office's Financial Remedies Section, and investigator Steve Adelstein worked on this case.

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